

SOVIET ECONOMY

1. Soviet economic development is dominated by obsession with rapid growth of heavy industry. A large part of reason for this is their desire for strong military posture which is made possible by continuing emphasis on investment at the expense of consumption.

- a. We estimate that 23% of Soviet gross national product, equivalent to approximately 27 billions of dollars, goes directly into capital investment--the base for expansion of future military capabilities. Only 15% of our own gross national product is used for capital investment purposes.
- b. The Soviet forced draft expansion of heavy industry is reflected in their low level of consumption and resultant low standard of living.
 - 1. About 60% of Soviet gross national product, equivalent to 53 billions of dollars, is devoted to consumption. In the United States

consumption accounts for 69%, equivalent to 240 billions of dollars or nearly five times that of the USSR.

c. Thus although the proportion of Soviet product allocated to direct military expenditures is about the same as in the U.S. (12%), the Soviets are investing more of their output in the means of military production than any other country.

2. Hence before discussing the economic, industrial and scientific position of the Soviet Union, I propose to discuss what we believe its military posture to be.

3. The Soviet Bloc implacably believes in eventual triumph of international communism. It expects and hopes to achieve this end without a global war but feels it must be prepared for war if other means fail or if it should be attacked.

4. Soviet position due to their fear that global war, while it might destroy the capitalist system and eventually lead to a communist world, might also bring about their own destruction and quite different group of men would rise from ashes of a global struggle.

5. Therefore, estimate the Soviets will probably try to avoid global war for the immediate future for this and other reasons.

a. At the present time and pending the development of an effective long-range bomber force, or long-range guided missiles, they are not assured of being able to destroy the American industrial base and our retaliatory power and hence win out in the long run.

b. At the present time they are somewhat behind us in the nuclear race and probably do not have an adequate nuclear stockpile for global war purposes. They do, however, probably have a

stockpile which, if surprise were achieved, could effect devastating damage.

- c. They seem to feel a general military inferiority to the United States except in ground forces and possibly in guided missile development.
- d. The Soviet consider themselves as appreciably encircled by American overseas bases and that we have, unless they can neutralize these bases, a more effective jumping off point to attack them than they have to attack us.

6. I conclude that over the next decade they will continue to devote of their gross national product every ounce of strength which they think their people will stand to heavy industrial development--the basis for military strength in even more distant decades.

- a. They will give lip service to the increase of consumer goods, although not so recklessly as

during the Malenkov regime.

- b. It is clear from the new Sixth Five-Year Plan that the real priority of heavy industry will remain unchanged for some time.

7. We will, therefore, probably have a situation during the next decade or a good part of it where the Soviet Union will continue to devote as they do today about 35% of their gross national product to military ends or to capital investment.

- a. This means emphasis on heavy industry, atomic weapons, aviation, guided missiles, and related fields of electronics, etc.

- b. Where do they stand in this situation today?

Have here chart showing their industrial production as compared in billions of dollars to the United States. (See chart)

8. During quarter of century since Stalin consolidated power position in 1928, USSR has risen from relatively

undeveloped country to second largest economy in the world.

- a. This growth particularly remarkable considering destructive effects World War II.
- b. It has involved transfer of millions of workers from agriculture to urban occupations paralleled by prodigious efforts to educate them in modern skills and technology.
- c. The Soviets have diverted an unusually large portion of total national product to investment--one and a half times that of U.S.A. The result has been:
 1. While capital goods output was raised ten-fold, agricultural production failed to match growth in population.
 2. Planned goals for heavy industry have usually been reached or surpassed while modest goals for consumer goods have been chronically unfulfilled.

9. As indicated above, total output of USSR now is one-third of U.S.A. but about 1.75 that of U.K. However, USSR production of capital goods far larger proportion of total national product than for U.S.A.

- a. For example, USSR production of coal almost equals that of U.S.A. while the number of machine tools produced exceeds slightly that of U.S.A. Its output of automobiles less than 5% of ours.

10. Sixth Five-Year Plan 1956-1960 follows traditional Soviet line of heavy industrial output which will bring Soviet industrial production in 1960 to nearly 2/5 of U.S.A. as against 1/5 in 1950.

- a. Electronic output--largely a military item particularly for guided missiles--will be tripled or quadrupled. In field of special heat resistant alloys where Soviets have done much fundamental research a six-fold increase in production

contemplated.

- b. (See attached sheet for comparison of present capital goods and consumer goods production in certain key fields.)

11. I have read with interest your publication Resources of the World. As applied to the Soviet Union, the problem of food availability appears to be more difficult of solution than those of raw material, energy resource, and technical manpower scarcities.

- a. Both historical review and current analysis of Soviet economic policy disclose greater success and determination in coping with the latter three problems than with that of adequacy and variety of diet.

12. In their struggle to provide an adequate and varied diet the Soviets have inaugurated their "new lands" program to increase grain supplies. Whether or not this program will in the long run be the hoped for success remains a big question.

The lack of adequate rainfall makes success doubtful.

- a. Soviet land resources are not unlimited as pointed up by the experience encountered this year in seeding areas to grain that are even now being abandoned to return to grass.
- b. The increase in land expansion will eventually reach its limit and alone cannot be expected to solve the problem of feeding an ever-increasing population.

13. If the Soviets ever expect to fulfill their promises of a more varied and higher quality diet for their people, they must invest heavily to greatly increase availability of such things as fertilizers and special purpose machinery for tilling and harvesting corn, vegetables and other crops as well as those required in developing their animal industry.

14. Even with a maximum effort of expanding acreage and heavy investment in the means of production, it is probable that the increasing population will overtake availabilities

and the Soviets will be forced to increase imports of quality foods.

SCIENCE AND TECHNOLOGY

15. Kaganovich in a recent public speech said: